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WILL AMERICA RETAIN IT'S MERCHANT FLEET

FINAL REPORT

TO THE

PRESIDENT

31st JULY, 1919

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FROM

EDWARD N. HURLEY, CHAIRMAN

UNITED STATES SHIPPING BOARD.

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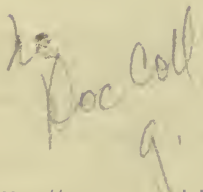

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TO THE PRESIDENT:

At the signing of the armistice the United States found itself in possession, or prospective possession, of almost fourteen million deadweight tons of ocean-going merchant shipping. This fleet represents a construction investment of $2,861,755,570, and alone among the vast outlays made for the prosecution of the war, it seems capable of returning close to 100 per cent salvage to the Government. In addition, if properly administered, it is capable of greatly increasing the activity, prosperity and wealth of the American people by extending their trade with all parts of the world. The careful development and efficient utilization of this new power looms large as a matter of national importance.

In Europe, I found it taken for granted that our Government and our people would co-operate to derive the utmost possible advantage from this opportunity. The fact that our war-born fleet is out of balance, i. e., consists of too many small, slow cargo vessels, and too few large, fast passenger and cargo vessels, was held to constitute no barrier to our success. The speed with which we had built our emergency ships seemed sufficient guaranty that we could remedy our deficiency quickly. Meanwhile the run-down condition of the European fleets, (the congestion of the ports of the world has kept hundreds of ships out of service) and the unprecedented world-wide demand for any sort of tonnage seemed to assure the profitable employment somewhere of every ship we could put into the water. The British, who are more heavily interested in ocean transportation than any other people, and whose fleet has borne the brunt of the war's depreciation and losses, were keenly alive to this situation. The British press discusses frankly the potential prowess of England's new competitor on the sea.

Upon my return to the United States in February, I was surprised to find a wholly different feeling. Instead of enthusiasm I found what I feel I can properly designate as organized pessimism. The American people wanted a merchant marine. There is no doubt about that. But a large number of shipowners, ship managers, ship brokers, marine insurance men, and others who are presumed to be authorities on the subject, were filling the daily newspapers with

interviews, announcements and warnings to the effect that our new fleet would prove a white elephant on our hands. They solemnly declared we never could, cannot, and never will, be able to build ships in competition with certain other nations; that American labor is so much more expensive and so poorly trained as compared with British labor, that even 47 years of tariff exemption on shipbuilding materials had failed to make us a shipbuilding nation, except for the purpose of supplying vessels to our inland and coastwise trades from which the competition of cheap foreign ships is excluded by law.

OPTIMISM ABROAD—PESSIMISM AT HOME.

As for operating American ships in competition with foreign ships, any such proposition was declared wholly out of the question. The American wage scale; the American standard of living quarters and victualing; the excess number of men required by American law; the privilege granted American crews to leave a ship when and where they please; alleged oppressive American steamboat inspection regulations, measurement rules, and a dozen other reasons, plausible enough on the surface, were advanced to show that the operation of ships under the American flag is economically impossible.

I had heard all these arguments before. So has everyone else. The records of congressional hearings are full of them. They have been resurrected time and time again, whenever a ship subsidy bill is under consideration. The last time I heard them was when the Shipping Act of 1916 was being drawn, and the investigation of their truth is one of the duties with which the Shipping Board is specifically charged by law. I wish to say that none of them impressed me as the most important factors, even if 100 per cent were true, and it is now admitted generally that they are true only in a very limited degree. I doubt if any or all of them ever has or have been an insurmountable obstacle capable of being offset only by a subsidy from the public treasury, or other special concession at the public expense. At the present time I am sure that none of them is either real or important enough to be given so much prominence as weighty factors in the problem.

For instance: the experience of the war period has proved conclusively that our shipyards can build six or seven times as rapidly as the shipyards of any other country in the world, and the fact that our war-built vessels have received the 100 A 1 classification from Lloyds Register of Shipping proves that our work is fully up to the standards of the British yards. I cite British yards specifically because their workmanship always has been accepted as the standard of the world.

It is true that our war-built vessels cost three times as much as similar ships cost before the war, but the same thing is true of the war-built ships of England, Scandinavia, Japan and other countries. Morever, American construction costs are decreasing while those of Europe are rising. You can contract for an

American ship, six months delivery for a final flat base price of about $155 a deadweight ton. In England the best you can do is to contract for two years six months delivery at a base price of about $150 a deadweight ton plus whatever increase in the cost of labor and materials may occur in the meantime. The argument about tariff exemption on shipbuilding materials for 47 years has no point at all. During the last eight years there never has been a time when American ship steel has not been at least $5 a ton cheaper than British ship steel. Today the difference in favor of the American shipbuilder is from $14 to $17 a ton, according to type of material.

THE TRUTH ABOUT OUR SHIPBUILDERS AND OUR SHIPS.

Immediately upon my return from Europe last February I reported these fact to my colleagues in the Shipping Board, and the text of the report was given wide currency by the newspapers. I also showed that the world-wide demand of labor for something approaching the American standard of living had raised the labor cost of everything everywhere; also that the provision of the Seaman's Act which permits men to leave a ship when and where they please, and forbids the arrest of a sailor leaving a foreign ship in an American port, had caused foreign seamen to leave in American ports, and to join American vessels in such numbers that the wages of seamen on board ships of all the important maritime nations had been raised approximately to the American level.

Personally I do not attach much importance to this circumstance, because the wage and subsistence items combined constitute at the maximum 12 per cent of the total operating expenses of a ship. I cite it, not particularly in refutation of the argument that high wages furnish any valid reason why a high-wage ship cannot compete with a low-wage ship, but rather to show how superficial is the chief argument that has been advanced to prove the contention that it is impossible to operate ships under the American flag. The other arguments, on their very faces, are equally superficial; and, in the case of inspection laws, etc., they can be easily corrected the moment it is affirmatively shown that they are unwise. At the same time, it may be worth while to note in passing that none of these alleged handicaps seem to have prevented the Red "D" Line from doing a successful business under the American flag between New York, the West Indies and Venezuela during the last thirty odd years; nor have they interfered with the prosperity of the Atlantic, Gulf and West Indies Company, whose vessels also fly the American flag. The successful competition of the American flag ships of W. R. Grace & Co. with the powerful British P. & O. Line in the South American trade has been a matter of common knowledge for many years; and last, but perhaps most significant of all, is the fact that the vessels of the Pacific Mail Steamship Company, flying the American flag, have successfully met the competition of ships paying the lowest wages on earth in the trans-Pacific trade for about seventy years.

Of much more importance than the wage-and-subsistence item, which is not over 12 per cent of the total operating cost, is the coal fuel item, which ranges between 30 and 40 per cent of the total. Here the advantage is heavily in favor of the ship which takes her coal in an American port. The use of oil fuel turns coal bunker space into revenue-earning cargo space; gives a larger steaming radius, and also reduces the propelling cost per mile. Here again the American merchant marine as a whole has a really worth-while competitive advantage because it contains a greater percentage of oil-burners than any other merchant marine in the world. Also, the matter of effecting a quick turn-around offers an opportunity for turning costly idle days into money-making days at sea which is not yet fully appreciated, and which American ships are free to use their initiative in developing by planning their voyages and arranging for return cargoes in advance.

SUPERFICIAL CHARACTER OF ARGUMENTS AGAINST AMERICAN SHIP OPERATORS.

I almost regret having written this last paragraph because the items I have cited do not lie at the root of the problem, and are open to the same charge of random superficiality which I have laid against the wage-and-subsistence and navigation law items they offset. Still, it is important to bear in mind some of these things in order to fully understand the appalling superficiality with which the merchant marine problem has been set forth and passed upon offhand by men who appear before Congress and undertake to influence public opinion by giving out press interviews as authorities on the subject.

Naturally, after reading columns of newspaper articles, and pages of magazine and trade paper articles, telling how and why we could not operate ships under the American flag, I was anxious to learn what constructive suggestions the men responsible for these articles had to offer. Accordingly, I announced that the Shipping Board was studying the problem and would welcome any help anyone interested in creating and maintaining an adequate American merchant marine might care to give.

The results were disappointing. Almost without exception the letters I received from men connected with, or claiming knowledge of, the steamship business assumed the existence of same un-named reason why American flag ships cannot hope to compete with foreign flag ships unless heavily subsidized. Some thought the Government ought to charter or lease its vessels to private operators, saying that the ships might be susceptible of profitable operation under the American flag for three or four years while abnormal conditions exist, but that after that time the Government would be obliged either to guarantee a return of five or six per cent to the operators, or else would have to sell the vessels into foreign registry. Others thought if it were understood that the La Follette Seaman's Act would be repealed; the steamboat inspection regulations revised,

and a subsidy of some sort were guaranteed, it might be possible to sell the Government ships. In this event, however, the Government must be reconciled to the sacrifice of more than a billion dollars of construction expenditure, for the ships would have to be sold at not more than half their average cost, or about $100 a deadweight ton. Otherwise they could not hope to compete with foreign ships, many of which are carried on their owners books at $20 or $30 a deadweight ton.

I cite these suggestions and recommendations in detail chiefly to show the prevalent habit of accepting conditions as stated simply because for many years they have been so stated. It is quite difficult to understand why our shipping people if truly American continue to argue against our ability to operate in competition. Two of the most striking characteristics of the letters I received were the apparent absorption of the writers in operating details, and the obvious disinclination to dig below the surface of the problem. For instance, the expressed fear of competition from ships carried on owner's books at $20 or $30 a ton is wholly without justification. A vessel which had been written down to that figure would be old and worn, costly to operate, often laid up for repairs, and not at all comparable with a new modern ship, economical to operate, and having a long life of usefulness in prospect. Such an argument is the last thing one would expect to hear from a steamship man at this time when every shipowner in the world is at his wits' ends for time and shop facilities with which to recondition his vessels after the continuous, hard, racking service to which they have been held and driven during the war.

I confess it caused me to experience a feeling of exasperation which led me to ask my associates and myself what on earth could be the matter with these people who kept going around and around in circles, never getting anywhere. They claimed that their industry was a great one, and that it was a national necessity because it made large sums of money for many other industries; and in this we all agreed with them. Yet in the same breath they solemnly averred they could not make money for themselves, or even stand on their own feet without Government aid.

It seemed to me that this story had a familiar ring—a sort of timbre which I had heard in other countries besides the United States—and straightway I began to wonder if it were possible that somewhere, way back in the history of ocean transportation, the merchant marines of the world had fallen under some extraneous influence which had slowly, insidiously and impartially strangled them all. I had seen so many unsound and illogical things accepted and taken for granted in this strange industry that I could understand how it might be possible for creeping paralysis of this sort to develop indefinitely, and still remain unidentified.

GETTING DOWN TO FUNDAMENTALS.

The only extraneous influence which can affect the merchant marines of all nations alike is the combination of vessel classification and marine insurance. So I resolved to go back and search in history for the point at which a single little sailing ship ceased to make snug fortunes for her owner and his merchant patrons in twenty or thirty voyages, and at which the present era of Government subsidies for large fleets of powerful steamships began. A comparison of the marine insurance practices of the two periods might prove interesting.

In the days when the ships of Florence, Venice, Pisa and Arles traded with Africa and the Levant there was no such thing as organized marine insurance. Each vessel was an entity in itself; each voyage a venture in which shipowner and shipper of goods were regarded as partners. If a ship were knocked down in a gale and it proved necessary to cut away the masts in order to save the ship and cargo, all concerned contributed toward re-conditioning the vessel, each in proportion to his financial interest in the venture. In like manner all concerned contributed to pay for cargo jettisoned in order to save the ship. The practice was based on the theory that the one partner had sacrificed part of his property in the interest of all, and that therefore all should be assessed equitably to make good the loss. The assessment was called a "general average", "average" being a corruption of a Florentine word meaning loss. If, on the other hand, a mast and its sail were blown away because of mismanagement, or any inherent weakness, or if a sea boarded the vessel and damaged the cargo belonging to any one merchant, the circumstance was regarded as a matter of bad luck and the loss lay where it fell. Such a loss was known as a "particular average," and the person who sustained it bore it all. There was, of course, no provision to protect from total loss.

This system was far from complete and far from satisfactory. Still, it is well worth study, not only because under it ocean trade grew and prospered, but also because it left the shipowner and the merchant absolutely free to make any voyage they wished to make; to handle any cargo they wished to handle; to seize upon any opportunity which presented itself; to establish communication with and develop the resources of any new country, and generally to utilize all the initiative, enterprise and salesmanship they possessed. It is a matter for regret and grave consideration at this time that the same thing cannot be said of the marine insurance system under which the merchant marines of the world operate today.

MARINE INSURANCE, ANCIENT AND MODERN.

Modern marine insurance is a development, and its rules and practices cannot in any sense be regarded as the product of design. It originated at, or rather crystallized about, the London Lloyds as naturally as the practice of ship classification for insurance purposes developed in the same manner and at the same

place under the name of Lloyds Register of Shipping. The British Lloyds companies and groups are said to write, or to participate in writing, more than 70 per cent of the marine insurance of the world. The marine insurance organizations of the other maritime nations are modeled closely after the British Lloyds, and several of them bear similar names. They even use the British Lloyds forms and actuarial data, just as the German Lloyds, the French Societe Véritas, the American Bureau of Shipping and other classification societies have adopted, in many cases verbatim, the scantlings and other superstructural requirements prescribed for vessels by the British Lloyds Register of Shipping. Thus, it is plain why classification and insurance practice is uniform all over the world, and that no matter who actually writes any given marine policy, the form, terms and limitations of all policies covering similar vessels and similar voyages are substantially the same.

It is a matter of common knowledge that modern marine insurance is purely a financial enterprise conducted solely with the idea of collecting a maximum of premiums while paying a minimum of losses. Premiums collectible and losses payable are based upon an arbitrary insurance valuation set upon the vessel insured, the premiums varying with the age and condition of the vessel and with the trade in which she is engaged. Whether the vessels are busy developing trade and making money, or whether barely eke out an existence is of no consequence to the insurance companies. They are no more interested in stimulating the business of the merchant marine than they are in stimulating the business of the many manufacturing and warehouse enterprises, whose property on shore the same companies stand ready to insure against fire, lightning, etc., as readily as they insure vessels against marine perils.

Of course the basis for all this insurance, and for the ship classification upon which it rests, is the actuarial record of past performances. This actuarial record dates back through several centuries, during which each disaster has been analyzed, cross-analyzed, listed, averaged and totaled, while of the millions of successful voyages there is no record whatever. Consequently, it is natural to expect that the marine insurance system under which the merchant vessels of the entire world operate today would be retrospective and conservative in the extreme, if not actually obstructive to progress.

INFLEXIBILITY OF REQUIREMENTS.

As a matter fact, the rigidity and backward-looking character of the classification and insurance requirements are amazing. During the war there was not enough anchor chain to equip all the emergency vessels in conformity with classification requirements, and there were not enough anchors to provide each ship with a spare bower. The anchor and chain requirements of the classification societies were based upon what was considered necessary in the olden days

when ships did not often lie alongside wharves, and when lofty spars stopped the wind and made holding difficult—when a ship lying at anchor in a gale had no engines with which she could steam up to her anchors.

Nevertheless, after prolonged negotiations, the classification societies made only slight concessions in the chain requirements, and while the American Bureau of Shipping finally permitted the omission of the long-obsolete spare bower anchor, Lloyds' Register of Shipping steadfastly refused to do so.

Nothing short of the war-time necessities of England and the United States ever could have secured these slight concessions from the iron-clad dictates of the past which bind every steamship owner in the world hand and foot. Ninety per cent of the anchor chain carried by merchant vessels never sees the light of day except when roused up on deck for its annual coat of asphaltum paint. Yet the shipowner may sigh in vain for the opportunity to carry some revenue-earning cargo in the space where several tons of this excess baggage are stowed. The voice of the past says "No," and that is final. Personally, I am curious to see how soon the marine insurance people will veto the war concessions of the classification societies and send the private owners of some of our emergency ships into the market inquiring for chain and anchors. The matter has not yet come before them because so long as the vessels remain the property of the Government the Shipping Board insures them in its own fund.

However, the restrictions under which ship construction labors are not so important as those universally imposed upon ship operation. For example, a vessel with the highest classification rating may be engaged in lifting cargo from a Pacific port to Vladivostok. Late in the season she may have an opportunity to pick up a return cargo at Petropavloski. If she has a wooden rudderstock, or if her forward frames are spaced further apart than the ancient requirements for an ice-breaker prescribe, the insurance company will not permit her to venture into the Bering Sea. Many years may have elapsd since the insurance companies have lost money on a vessel engaged in such a voyage, and meanwhile much progress may have been made in taking meterological observations and in detecting the proximity of ice-fields. The insurance loss is remembered, and, because the insurance business is purely an actuarial financial institution, out of touch and unsympathetic with merchant marine enterprise, the progress made by the science of navigation is ignored. Instead of being allowed to make additional money, the vessel will be obliged to make a costly return voyage in ballast.

THROTTLING EFFECT OF MODERN MARINE INSURANCE.

To anyone who wants more light on this subject I recommend the persual of a dozen or so marine insurance policies, or the charter parties based upon them, selected at random. These documents, issued to the ordinary cargo vessels, which constitute the backbone and mainstay of ocean transportation,

provide that the vessel may cruise in certain oceans, seas, bays and rivers only at certain seasons of the year; that she is not to enter certain other bodies of water at all, and that she is warranted not to go north of a certain parallel of north latitude or south of a certain parrallel of south latitude at any time or in any circumstance.

A moment's reflection will suffice to show that the tendency of these restrictions is to standardize ocean trade routes and to force all vessels to adhere closely to these routes. Such an arrangement may have its advantages from the insurance point of view, which regards safety as the main object in life. But it is not so advantageous from the shipowner's point of view. Standardized ocean routes means also a corresponding standardization of ocean termini, or the crowding into a few ports of the trade which otherwise would be distributed among many ports. This, in turn, means slow turn-around, unnecessarily keen competition and unnecessarily reduced revenue. A shipowner naturally will cut freight rates if by doing so he can stay in the route where he is and avoid being forced to trade with a port to and from which his fuel and other operating costs may be considerably increased, or for the privilege of trading with which he may have to pay a much higher insurance premium on his vessel. The owners of some tramp steamers—the type of vessel which always is the pioneer of trade—have told me they would like to establish trade with a number of undeveloped parts of the world, but that they are absolutely estopped by the refusal of the insurance companies to underwrite their vessels on any terms if they contemplate entering harbors which are not well charted and buoyed, and which do not afford full protection in bad weather.

FINANCIAL DECADENCE OF SHIP OPERATION EXPLAINED.

The universal development and steady tightening of these restrictions over a long period of years are in themselves sufficient to explain much, and perhaps most, of the steady decrease in ship earnings which has occurred during the last century. The remainder probably has been absorbed by the increased cost of ships and of ship operation, which, like the property and operation costs of other industries, have risen rapidly during the last thirty or forty years. Moreover, while the prices of manufactured commodities have been steadily advancing, the tendency of ocean freights, up to the beginning of the war, has been rather in the opposite direction.

But this is not the whole story. Superimposed upon the classification and insurance restrictions has been the heavy burden of universal overcapitalization. This process began when the steamship companies were hard pressed during the trade slump which followed the panic of 1873. Very few companies seem to have escaped overcapitalization, and most of the new ones seem to have been systematically "watered" almost as soon as they sprang into existence.

I have before me a 200-page analysis of the annual financial statements of representative steamship companies of all nations covering a period of twenty years. The collator remarks that many of the statements seem to have been prepared with the idea of showing the position of the company "as it is not." However, practically all of them whose statements are sufficiently complete to admit of intelligent interpretation show degrees of overcapitalization indicating that they are obliged to find money to pay dividends on stock issues which are from ten to forty per cent in excess of all the property value they can show. A recent statement of one American company frankly admitted that its capitalization of $11,000,000 consisted of $5,000,000 in "tangible assets" and $6,000,000 of "good-will."

In the classification, insurance and capitalization conditions I have just described I feel convinced that I see a real, deep-rooted and fundamental reason why the merchant marines of the world, the instruments for the promotion of overseas trade and the creators of wealth for other industries, find themselves incapable of making a living for themselves. After more than a century of slow, progressive strangulation of extraneous influences, and a half-century of effort to earn returns on values which do not exist, I am not surprised to see the great merchant marines of the world, ignorant of what really ails them, huddled and inert, like so many statues of Buddha, sitting with upturned palms, before the public treasuries beseeching national aid. I consider this aspect of the matter infinitely more important than the La Follette Seaman's Act, the tonnage measurement rules, the seamboat inspection regulations and the other operating details which are mere surface excrescenses. And it is along these lines, rather than upon what the steamship authorities have told me, that my associates and I developed the plan of ownership and operation which the U. S. Shipping Board has officially recommended to Congress.

GROPING FOR A REMEDY.

I do not wish it understood that I advocate embarking upon a Quixotic knight-errant crusade to reform the long-established ship classification and marine insurance practices of the world. I know too well the futility of attempting to teach so old an animal new tricks. Moreover, I do not claim sufficient familiarity with the technicalities of the business to presume to say exactly what the new tricks should be. I admit that a certain amount of insurance restriction is necessary and proper, but I do not believe this restriction should be one-sided. I believe that enterprise at sea should enjoy more freedom of action than it has enjoyed for at least a generation; that a shipowner should be able to get hull and machinery insurance for any voyage he wishes to undertake, and that he should have his insurance under reasonable conditions and on reasonable terms, just as a manufacturer or merchant on shore can get insurance for his property, no matter what his business, on terms which are not so prohibitive as to cause him to abandon the venture.

This can never be accomplished until we have some marine insurance companies which do not adhere rigidly to and depend absolutely upon the acturial records of the past, but which make themselves familiar with the business of the modern shipowner, and work in sympathy with the aspirations. Such a state of affairs actually exists on shore, where the underwriter and the insured are in daily touch with one another, and where competition is keen. At this time, when we Americans find ourselves called upon to build up a brand-new marine insurance business of our own, I see no reason why we should not ignore the backward-looking methods of the rest of the world and build along sound, progressive lines.

POSSIBLE SOLUTIONS OF THE PROBLEM.

This task is not one which the Government can properly undertake, except possibly to emphasize the importance of having liberal American insurance for American ships and cargoes. It seems rather to be the duty of the steamship owners, the American classification society and the American companies who write, or wish to write, American marine insurance. The Shipping Board plan provides the machinery for starting such co-operative action through the Association of Steamship Directors, which it would have meet quarterly in Washington to compare notes and experiences, and to discuss merchant marine problems with the Government.

If all else fails, and a real, progressive American marine insurance business fails to develop, the steamship companies will still be free to create among themselves a common marine insurance fund, administered by themselves, into which they all pay their premiums, and from which they pay all their losses. For the last two years the Shipping Board has demonstrated the practicability of such a plan under much more difficult conditions than obtain today. The process was more like taking money from one pocket and putting it into another than anything else. Nevertheless, although the rate charged was consistently about three-quarters of the prevalent commercial premium, the plan furnished full protection against marine loss, and left about enough surplus to pay overhead expenses, all without touching a dollar appropriated by Congress.

The urgent and immediate necessity for American shipowners and prospective shipowners to consider seriously and carefully the establishment of an independent American marine insurance system at this time is further shown by the agitation for higher rates on all forms of marine policies which began in London last autumn, and has now spread to all the maritime countries of the world. The marine insurance business, unlike any other business, never takes a loss. If it experiences a bad year it raises rates and recoups next year—and the steamship companies pay the bill. The chief cause of the present agitation for increased rates is the accumulation of unexecuted repairs brought about by the inadequacy of existing repair yard and drydock facilities.

No doubt the extraordinarily hard driving to which the fleets engaged in the trans-Atlantic trade have been subjected during the war has rolled up an imposing total of repair claims. It is for the purpose of meeting these claims without reducing their own profits that the marine insurance companies are co-operating to raise the cost of marine insurance for an indefinite period to shipowners all over the world, no matter whether their ships participated in the repairs or are new ships which may not contract a single repair bill for several years.

In his recent address to the Eagle, Star and British Dominions stockholders, Sir Edward Mountain, a great power in the marine insurance world, spoke of these accumulated repair bills, admitted that their payment in a lump sum cannot be avoided, and urgently besought the co-operation of steamship owners to keep the cost of the repairs down to the lowest level possible. At the same time, he described and deplored the practice of including in a marine policy several minor extra risks, which has arisen during the confusion of war business, and which, until now, has escaped the alertness of the underwriters. For instance, he said that shippers and shipowners are taking advantage of this unprecedented practice by using bills of lading to contract themselves out of liabilities which formerly were theirs, but which they now find they can pass along to the underwriters.

The elimination of the overcapitalization handicap from the American merchant marine is fully provided for in the Shipping Board plan. When we can get both the insurance and overcapitalization handicaps out of the way I expect to see the merchant marines of other countries worrying about their ability to compete with American ships, and the arguments about our inability to compete with foreigners will disappear.

ORGANIZATION OF STEAMSHIP COMPANIES.

From a close study of world shipping, and from the experience of the Government since the slow return toward commercial conditions began last autumn, I am convinced that ships can be operated to maximum advantage only when the individual fleets are of such size that the management can give careful personal attention to every detail and all the potentialities of each voyage. I believe, and all my colleagues and associates in the Shipping Board agree with me, that when an operating organization exceeds this size its routine becomes too complicated and its reactions too slow; the comparatively few big, competent brains of the organization do not have the time to bestow the proper attention upon the details and potentialities of each venture; too much of the planning and bargaining is left to relatively inferior subordinates whose names and personalities mean nothing to customers, either at home or abroad; profitable business opportunities are overlooked; personal contact with customers is to a large extent lost, and many forms of lost-motion and other kinds of wastefulness are certain to germinate, develop and multiply.

Again, I believe, and my associates agree, that the affairs of the ideal steamship organization should be administered by the most far-seeing and versatile type of man the country produces; that as many agricultural, industrial, transportation and merchandising industries as possible should be represented on the board of directors, and that the stock ownership should be widely distributed among American citizens of every occupation, persuasion and school of economic thought. Then there could be no such thing as a steamship interest separate and distinct from every other interest; farm, factory, ship and merchant would always be working together in the common national interest; and, by the same token, their acts would always be responsive to and would always enjoy the support of national popular opinion.

It has been argued that such cosmopolitan composition of operating companies might lead to more or less frequent sacrifices of steamship profits in favor of promoting foreign trade schemes, but I think this objection is answered by the fact that the officers of the organization would have steamship responsibilities to which they would be bound to give weighty consideration, even if it were not for the circumstance that the interest of the steamship business, as such, is inextricably interwoven with the expansion of foreign trade, and therefore the steamship company would be more likely ultimately to gain than to lose through any such concession that may be made.

In this connection it is worth while to note that a new, apparently successful and, in its present form, a distinctly American steamship development is the ownership and operation of vessels by companies which use those vessels exclusively for the purpose of distributing and marketing their own products. The U. S. Steel Corporation and the Standard Oil Company furnish conspicuous examples of this, and I am told that for the purpose of insuring efficiency, the sales departments of these companies deal with the marine departments on a scrupulously strict business basis, so that if it were desired at any time to divorce the marine department from the rest of the business, that department would be entirely self-contained, self-supporting and capable of earning a profit.

NEW CONDITIONS TO BE RECKONED WITH.

I do not wish to hazard any prophecy about the extent to which this innovation may be expected to develop, or about the effect it may be expected to have upon the independent steamship owner. Oil tankers can never become serious competitors for return cargoes because the variety of the merchandise they can carry is narrowly limited. The cargo steamer which carries its owners' own products abroad, however, is a different proposition. Still, I believe that the modern thirst for returns from by-products is so great that such a steamer would not be likely to cut rates unless faced with the alternative of returning home in ballast.

In any event, here is a new state of affairs in the steamship world which undoubtedly will extend, and which must be reckoned with and allowed for accordingly. Moreover, it is natural to expect that the cue given by this development will be taken up by other industries, and that to some extent combinations of manufacturers and merchants having similar interests and important trade connections in the same foreign country will seek to further those interests through stock ownership in the steamship companies which carry their goods.

Personally, I see no objection to such a tendency. Undoubtedly it will stimulate the establishment of American steamship companies, cause them to gravitate quickly into regular trade routes where plenty of business awaits them, and at the same time it will make the steamship companies sympathetically responsive to the needs of the country's trade. These should be our main objectives at the present time. I am not apprehensive that the manufacturing and merchandising elements will ever be able to make the steamship companies serve their own selfish ends to the detriment of independent stockholders who expect dividends from steamship profits, because, apart from the reliance which must be placed upon the intelligence of steamship stockholders and steamship managements, the Shipping Board plan contemplates careful Government supervision of the issue and transfer of steamship securities.

ALL MUST CO-OPERATE.

I have already indicated, and I wish now to emphasize, my conviction that no empirical policy laid down by the Government, no matter how complete, sound and well co-ordinated, can, by itself, be expected to vouchsafe to the American people the establishment of the magnificent economic mechanism they justly demand that the American merchant marine shall be. The Government policy endorsed by Congress will simply be the reflected composite of the wishes and aspirations of the country. As such it will be the cue which the American steamship operators, the American marine insurance men, the American classification society, the American terminal companies and the American exporters and importers should take up in formulating their policies, all of which, of course, must be consistent and consonant with one another, and so moulded that they will work smoothly and harmoniously under the Government plan.

A SURVEY OF MATERIAL.

Before describing the Shipping Board plan of ownership and operation, I believe it will be helpful if I sketch an outline of the material with which we shall have to work.

Our fleet will aggregate almost fourteen million deadweight tons. The last vessels are due for delivery in February or March, 1921. The ships are good, strong ones, of much better quality, equipment and finish than the cargo

vessels of Europe. But the fleet as a whole is seriously out of balance. That is, we have too many small, slow coal-burning ships, and too few large, fast oil-burners. We can get along without many palatial ocean greyhounds for the present, but the dearth of good, serviceable combination passenger and cargo vessels is deficiency which we should correct as soon as possible.

I have no apology to make for this condition. Our program was laid out at the end of a week in which the Germans had destroyed forty allied merchantmen, and seemed in a fair way to make good their boast that soon they would be destroying sixty a week. The greatest world need of the moment was ships of any size and description that could carry supplies to our armies and to the armies of our allies. There was no time and no disposition to stop, plan and create facilities for building a fleet which would be ideal for commercial use after the war. We simply went ahead finishing whatever had been laid down, and multiplying as rapidly as possible our facilities for building the types of ships we were equipped to build with least delay.

THE BALANCING OF THE FLEET.

It happens, however, that our headlong production of ships which are now superfluous not only enabled our country to accomplish its military purpose, but also placed in our hands the means for balancing the fleet from which we wish to create a permanent American merchant marine. The Shipping Board proposes to sell to citizens of foreign nations, at prices not less than construction costs, such coal-burning cargo vessels as we do not need, using the proceeds of such sales to construct as rapidly as possible in American yards the larger, faster oil-burning passenger-and-cargo vessels which we need.

The exact tonnage we can profitably spare will depend, of course, upon the extent to which our people go in for tramp steamer ventures, engaging in the transportation of cargoes back and forth between foreign countries, and touching at American ports only incidentally, or at long intervals, when extensive repairs are needed. If much of this sort of business develops we shall not have so many superfluous small cargo vessels as at present seems indicated.

WHAT THE SHIPPING BOARD HAS RECOMMENDED TO CONGRESS.

The Shipping Board recommends private ownership and operation as the fundamental policy for commercial shipping. The Government should, therefore, contemplate retirement from commercial shipbuilding, ship-owning and ship-operating activities at the earliest date which may be convenient and practical in order: first, to give our overseas trade the full benefit of competitive service; second, to leave steamship operators free to render this competitive service, and, third, to impart to present and prospective steamship operators that confidence which they must feel before they can be expected to invest

their money in existing ships, and to place the orders for new ships without which the outlook for the American shipbuilding industry will not be encouraging.

PLAN OF ACTION.

In order to carry out this policy, the Government should construct no more ships, other than those now in the program, except such new vessels as may be needed to balance the fleet, and for the construction of which funds may be provided by sales of superfluous ships to foreigners. It should adopt, and rigidly adhere to, a definite plan for selling its ships.

Obviously it will be impossible to sell the whole fleet at once; but during the period in which the ships are being sold it is essential that the Government handle the unsold ships in a manner which will not permit their operation to react unfavorably upon the operation of the ships which have been sold, and will definitely tend to stimulate the purchase of more ships by private operators.

This double purpose can be served by assigning unsold ships to managers and operators, as has been, and still is, the practice of the Shipping Board. The operation of ships through the medium of operators and managers should not react unfavorably upon the operation of privately-owned ships because, under present conditions, only flagrant mismanagement in the distribution of ships by the Government would be likely to cause overberthing in any trade route.

At the same time, these methods of operation will enable the Government to take care of its ship investment while any ships remain in its hands, because the difference between the earnings of the ships and the fees paid to the managers and operators is paid into the Government operating fund. These moneys will be available for depreciation, insurance, operating charges (including organization overhead) and the many other liabilities a shipowner should always be prepared to cover with earnings.

This method of operating the unsold ships also will place in the hands of the Government a mobile tonnage reserve peculiarly well suited for use in opening and developing new avenues and fields for American commerce. Not only will it permit the development of new business and new steamship routes with great ease, it will also, and at the same time, develop the competent operators, familiar with the routes, who will buy the vessels as soon as conditions warrant the sale of the fleets which have been established in the new routes.

We do not anticipate the establishment and development of new trade routes in this manner will involve any expenditure of Government money. We feel that a surplus of receipts over expenditures in the operating fund, together with the Merchant Marine Development Fund, described later, will provide centralized working capital adequate to finance this national enterprise.

TERMS OF SALES.

With these principles in mind, we have recommended the enactment of legislation which will empower the President to carry on for as long a period as may be necessary, after the expiration of six months from the signing of peace, the work which is now being done under his direction in planning and organizing, with the equipment now at hand, and that may hereafter come to hand, an adequate, well-balanced and properly co-ordinated merchant marine. Such legislation should include:

The power to sell to American citizens at the current world market price such Government-owned steel vessels as the President may designate from time to time, at least twenty-five per cent of the purchase price being paid upon delivery, the remainder falling due and payable in graded annual installments over a period not exceeding ten years. The President should also be empowered to take and hold a mortgage for the unpaid balance, the mortgage bearing interest at the commercial market rate for similar mortgages, the rate being revisable annually.

The power to take and hold such mortgages should also include the power to dispose of interest moneys as follows: That part of the interest which represents payment at a rate which fairly reflects the cost of correspondingly short-term credit to the Government should be paid into the United States Treasury. The difference between this sum and the interest actually paid at the commercial rate which the mortgage carries, representing a saving the Government is able to effect in virtue of its peculiar credit advantage, should be paid into a Merchant Marine Development Fund.

The power to sell Government-owned vessels should also include the power to sell to foreigners at prices not less than those charged American citizens, and on terms not more advantageous than those extended to American citizens, for similar vessels, such wood ships and coal-burning steel ships as may be superfluous, or otherwise undesirable, in the American merchant marine. Coupled with this power to sell to foreigners should be the power to use the proceeds of such sales to build the vessels the United States needs to balance its merchant marine as planned, said new vessels to be disposed of in the same manner as other prime vessels owned by the Government.

In considering the effect which legislation authorizing the sale of ships at "the world market price" is likely to have, it seems advisable to explain what we had in mind when we used this expression.

THE WORLD MARKET PRICE FOR SHIPS.

In order to judge the price prospects of such a market, it is necessary to realize that ships are fluid international commodities, which, because they compete with one another, irrespective of the flags they fly, maintain a remarkably level capital value all over the world. The vigilance of shipowners is so

keen, and cable service is so quick, that abnormal earning power in one trade route is destroyed almost as soon as it appears by an inrush of tonnage from other routes in which the earning power of ships is not so great. With few exceptions, this condition is as true today while a world-wide shortage of tonnage is keeping all earnings and capital values high, as it was in 1913, when a world-wide surfeit of tonnage was keeping earnings and capital values at much lower levels.

As good an idea as anyone can form of the present and prospective values of ships can be had from the following statements of fact:

In the first place, there is no question that the current charter market, which itself is the product of many factors, reflects accurately the momentary capital value of ships, although, because of its susceptibility to fluctuations, it is not necessarily a reliable index to their investment value. At present the bare-boat charter rate for ordinary cargo vessels is $5 a deadweight ton a month. This means that a 10,000-ton ship can be hired out at $50,000 a month, or $600,000 a year. In order to reach a conservative valuation, we shall assume that this rental represents as large an income as 20 per cent. The indicated capital value at the moment, therefore, is $3,000,000, or $300 a deadweight ton.

While no one would expect to see a private operator bid this figure unless the vessel were peculiarly suited to his especial need, we cite this evidence of the current value of spot delivery tonnage because a knowledge of it is necessary in order to understand the situation as a whole.

At the other extreme is the shipbuilder's price for distant delivery ships. This figure is almost entirely independent of the current demand for spot tonnage, and is composed of two principal factors: anticipated construction costs, and the desire to book business in competition with other builders. In England, where construction costs were held down during the war, but are now rising, the shipbuilder's bid for two years' delivery ranges between $140 and $160 a deadweight ton, the buyer agreeing to assume any increased cost of labor and materials. In the United States, where the increased efficiency of shipyard management and labor is lowering construction costs, but where private demand has not yet developed actively, flat price offers to construct for from $150 to $165 a deadweight ton have been held out by builders for future delivery.

Between these two extremes, the value of tonnage has a high rather than a low level and tendency—especially spot tonnage. Most of the world's fleets were built before the war and during the first two years of the war. They have been driven hard, and they are heavily depreciated. Their periods of idleness while undergoing postponed repairs are long, and will become longer. Their repair bills are large, and will become larger. In a short time the mortality among them will be very great. Practically the only ships now free from these handicaps are the ships built by the United States Shipping Board Emergency Fleet Corporation, and because the trade of the world must be carried by

someone at some price, it seems reasonable that the demand for ships which can be operated with certainty and economy should keep the market price of such ships at a high, rather than a low, figure throughout the now-visible future.

FIXING THE WORLD MARKET PRICE.

From the foregoing it seems logical that the United States Government, which is the only agency in the world with any considerable number of spot delivery ships to sell, will be very influential in establishing the world market price, and the offers made by our citizens can reasonably be regarded as reflecting carefully estimated earning power in the ocean carrying trade, modified, of course, by the buyer's natural desire to buy as cheap as he can. Moreover, since the completion and delivery of a large part our fleet will be placed over 1919, 1920, and the first two months of 1921, there seems in this circumstances a sufficient guaranty that our sales prices will always follow the actual market value closely, and especially that no tonnage will be dumped on the market at prices below those justified by the economic conditions of the times in the ocean carrying trade.

The influence which our Government may be expected to exert directly upon the prices of ships in other countries will be betteer understood if one remembers that the 4,000,000 deadweight tons which we may offer for sale to foreigners during the next eighteen months is equivalent to double the combined annual output of all the shipyards of the British Isles at present.

In this connection it is interesting to note the sharp upward turn taken by the prices of ships in England during the first quarter of 1919, the records of which have just been published by Lloyd's Register of Shipping. A 10,800 ton standard cargo vessel built by the Government in 1908 brought $2,114,100 or $195.61 a deadweight ton. A war-built standard steamer of 2,980 deadweight tons sold for 437,400 or $147 a deadweight ton. During the last quarter of 1918 the ruling price for war built standard steamers was a little more than $100 a deadweight ton. These figures unquestionably reflect a recognition of the soundness of the American prices of new tonnage.

The Lloyd's report also discloses sharp advances in the re-sale price of old tonnage. The "Reims" a 6,000 ton steamer built at Sunderland in 1901, was purchased in 1914 for $100,000, or $16.66 a deadweight ton. During the first quarter of 1919, the same vessel brought $325,000 or $54.16 a deadweight ton, despite the fact that it is 18 years of age with not more than two years' usefulness in prospect. The "Quinto" 5,560 deadweight tons, built in Glasgow in 1900, sold in 1915 for $225,000 or $40 a deadweight ton. During the first quarter of 1919, the same vessel, although 19 year of age, brought $425,000 or $76 a deadweight ton.

The explanation of these sharp rises in the sales prices of ships probably lies in the withdrawal of Government regulations which, throughout the war,

seem to have been framed and administered with the idea of holding down the capital value of tonnage. The occasion for the sudden relaxation of this restraint probably has been the unlocked for development that new ships cannot be built in England for less than three-and-a-half times their former cost.

AMERICAN INSURANCE FOR AMERICAN SHIPS.

Returning now to the terms of sale which should be laid down by law, the American purchasers should be required to engage that they will place, and keep placed, if possible, hull and machinery insurance for their equity in the vessels they buy with American Marine insurance companies which underwrite marine risks with their own funds, or with the funds of a group of American companies, each and every member of which group underwrites original marine risks with its own funds. The same provisions should authorize the President to carry in the Shipping Board insurance fund, as heretofore and as at present, the hull and machinery insurance for the Government equity in the same vessels, this insurance being so carried for purchaser's account, and at the same rate charged the purchaser by the private insurance companies which insure the purchaser's equity. The President should also be authorized to cause the difference between the premiums so collected at the commercial rate and the actual cost of the insurance to the Government, representing a sum the Government is able to save in virtue of its peculiar position, to be paid into the Merchant Marine Development Fund.

The object of the legislation just indicated is to provide for the insurance of American ships with American money, and for the development of an American marine underwriting business capable of protecting the American Merchant Marine. The legislation suggested is designated to turn over the hull and machinery insurance to private American Insurance Companies in the same ratio as title to the ships passes to private American steamship companies. At the same time, it is designed to enable the Government to retire from the insurance business in the same ratio as it retires from the steamship business.

FEDERAL CHARTER.

Each purchaser, manager, and operator for Government account, or operator for private account, who acquires title to or otherwise operates in the overseas trade any vessel sold, owned or chartered under the legislation now in question should be required by law to be incorporated under federal charter. Congress has been requested to authorize such incorporation, and to include in the law the requirements that: all stockholders shall be citizens of the United States; capitalization shall be limited to property value plus working funds; no additional security shall be issued without permission from the Shipping Board, or such other Government agency as may be designated by law to perform its present duties. Complete financial statements shall be published quarterly, and

the Shipping Board shall at all proper times have access to the companies' books. The board of directors of each steamship company shall include one director especially designated to serve as liaison officer with the Government.

Should Congress fail to pass legislation providing for federal incorporation, it should make conformity with these requirements a condition precedent to eligibility to buy or otherwise operate Government ships.

THE MERCHANT MARINE DEVELOPMENT FUND.

It has been indicated that this plan contemplates the setting aside of certain moneys representing the difference between the customary commercial charges for interest and insurance and the rates at which the Government, in virtue of its peculiar position, is enabled to charge. In the matter of interest, it is estimated that this difference would be 1 per cent, which represents the advantage over the costumary commercial rate of 5 or 5½ per cent the Government can concede without loss in view of the fact that 4 or 4½ per cent is the rate which approximates the interest the Government is accustomed to pay for short-term borrowings such as Treasury Certificates of Indebtedness. In the matter of marine insurance, the experience of the war period indicates that the Government can safely carry vessel insurance at at least 1 per cent of the value of the vessel below the commercial market rate. It is estimated that on the basis of $2,000,000,000 worth of ships sold on ton-year terms, the money derived from these two sources will amount to $14,000,000 at the end of the first year, accruals in progressively diminishing sums throughout the following nine years, raising the total size of the fund for the ten-year period to $72,800,000, exclusive of any interest which may be earned by keeping the balance on hand out on deposit in a national bank.

In this connection, there should be enacted legislation which would empower the President to pool the moneys which form parts of the Merchant Marine Development Fund with the surplus expected to accumulate in the Shipping Board operating fund, and to use such moneys, or any part of them which may be needed, to carry out the spirit of the policy of encouraging the establishment and development of an adequate merchant marine under the American flag. This would include the development of new trade routes, and the financing of such other kindred enterprices as the President may consider important to the welfare of the American Merchant Marine as the instrument of American overseas trade.

ADDITIONAL LEGISLATION NECESSARY.

Before any large-scale financing of the purchase and operation of ships can be undertaken in the United States, it will be necessary to change the legal status of ships mortgages in order to make them attractive investments.

The security of a mortgage may be imperiled by loss or damage to a vessel, or by attachment of superior liens. Such liens can generally be classed as those arising from debts and from liabilities. The most important ones, resulting from debts, arise from the furnishing of repairs, supplies, or other necessaries in the maintenance and operation of a vessel, including pilotages, towages, port charges, crews' wages, and other contractual obligations. Liabilities creating liens result principally from collisions, strandings, salvages, general averages, cargo demages, and personal injuries. Practically all such liabilities can be insured against by the standard form of marine insurance policies, and by protection and indemnity insurance.

If, therefore, the mortgage contains covenants and agreements to compel the mortgagor to insure against such liabilities, as well as loss from fire and marine peril, the security of the mortgage will only be jeopardized by liens arising from contractual obligations. It is our proposal to obtain protection against the latter by amending the existing law so as to assure to anyone furnishing such repairs, supplies, other necessaries, etc., the opportunity, by exercising due diligence, of obtaining full information by the existence of the mortgage, and then to provide that the lien of the mortgage shall be superior to liens for repairs, supplies, and other necessaries (contractual obligations), etc.

By this co-ordination of mortgage, covenants, and agreements and the statutes, reasonable and adequate protection can be secured to the mortgage. We would provide for such notice by requiring that all mortgages be recorded with the Collector of Customs where the mortgaged vessel is registered or enrolled and that the ship's registry or enrollment have endorsed upon its face the names of the mortgagor and mortgagee, the place of record, and the amount secured thereby.

Such record and endorsement would be made a condition precedent to the validity of the mortgage as against all the world save the mortgagor and mortgagee. If then the owner, master or agent of any vessel apply for the furnishing of repairs, supplies and other necessaries, or for the rendition of contractual services (except for the services of seamen) upon the mortgage of the vessel, the proposed creditor could immediately advise himself of the existence of any mortgage by examining the ship's papers, and could by telegraphic means communicate with the Collector of Customs of the home port of the vessel and ascertain the amount remaining unpaid upon the mortgage. With this information the proposed creditor could determine for himself the advisability of extending the requested credit. If he did so and a foreclosure of the mortgage upon the vessel should destroy his security, he would be without grounds of complaint against the superiority of the mortgage, because he would have furnished the credit with full knowledge of the superior lien of the mortgage.

We would also vest in the United States District Court exclusive jurisdiction over the foreclosure of the mortgages, instead of leaving the mortgages

to their present remedy in the State court. This would make the practice uniform and therefore greatly enhance the security value of the mortgage by providing a speedy and simple method of foreclosure. It would also avoid the inconsistencies, delays and uncertainties of the State laws and procedure which now exist. By-and-large, the enactment of a statute such as we have outlined would make of a mortgage on American vessel property a security fully as good as, and in some respects better than, a mortgage on vessel property sailing under any other flag.

OCEAN MAIL SERVICE.

In connection with, and as port of a policy contemplating the establishment and development of an adequate merchant marine under the American flag, an adequate American overseas mail service should be provided.

We have had a number of mail subvention statutes on the books for many years, but they have failed to accomplish what they were intendend to accomplish because they are based on the principle of paying a bonus which was not large enough, and could not in justice be made large enough, to call into existence on its own account the large, fast vessels to which the law made it payable.

Now that we have a substantial merchant fleet either in hand or in prospect, the Shipping Board believes there should be legislation which would discard the mail subvention or bonus principle, and pay for the carrying of the overseas mail, including an overseas extention of the parcel post, on the basis of service rendered.

Inasmuch as a constant flow of mail between American business men and their foreign customers would give more reliable service than the occasional, and at present uncertain and inadequate, communication provided by passenger liners most of which fly foreign flags we have recommended that the United States mails be carried in all American vessels plying regular routes at a speed of twelve or more knots an hour, and that provision be made by law for payment to such ocean mail carriers on the basis of service rendered.

WIRELESS TELEGRAPH.

The Shipping Board believes that for the purpose of promoting the safety of life and property at sea; for the purpose of facilitating the instant transmission of commercial and maritime information, and for other purposes, all merchant vessels flying the American flag should be equipped with the wireless telegraph. We have recommended that this equipment be owned by the Government and operated by naval reserve personnel, and that legislation covering such installation and operation, including provision for increased naval reserve personnel, be enacted.

TRAINING OF AMERICAN MERCHANT OFFICERS.

As in the case with the ocean mail laws, the laws now on the statute books covering the training of cadet officers should be revised to meet the new condition. Our old laws compelled mail steamers to carry one cadet for each thousand tons burden. The cadet was an extra member of the crew, and had to be paid and fed by the steamship company. Inasmuch as the demand for American officers was not large enough to give the steamship company any incentive to educate and train them, it naturally made the cadets shine brass, polish brightwork, and do other menial labor for their pay and keep instead of educating them. They were taken aboard chiefly because the law required a full crew list. Not many of them made more than one or two voyages.

Now the training of an American officer personnel has become a matter of national importance, and we have recommended that it be taken up by Congress. Legislation should require that all merchant ships carry at least two and not more than ten cadet-officers. Half of them should be trained as deck officers and half as engineer officers. The course should extend over two full years. The cadets should be paid living salaries by the Government, and the Government should pay the steamship companies fees for their tuition. They may be selected from the boys who already have elected to follow the sea, or from those who wish to do so. They may be appointed as the result of an examination held in the Customs Houses by the local boards of steamboat inspectors under the auspices of the Civil Service Commission.

UNDERLYING PRINCIPLES OF THE PLAN.

To my mind, the outstanding vital features of this plan are the provisions for sound capitalization and the several provisions designed to stimulate rapid, systematic and co-ordinated development through the active co-operation of all interests connected with the steamship business.

I have told how, while people were talking about "the war after the war", the British Government took the precaution to frame and administer its requistion regulations in a manner which prevented the inflation of the book value of British tonnage. The idea, no doubt, was to keep British ships in a position of financial advantage, as compared to the higher-valued ships of other nations, which would enable them safely to do such rate-cutting as might prove necessary to meet postbellum competition. Whatever advantage this precaution may have given to British ships is now annulled by the rise in valuations which has followed the relaxation of the requisition restrictions. But had the British, or any other Government been able during the war to place its fleets on the sound, pared-to-the-bone, capitalization basis which the Shipping Board plan contemplates for the new American fleets, those fleets would have had an initial and indestructible advantage over competitors which, in any rate war, would have became greater and more pronounced every time a rate was cut.

OWNERSHIP THE GOAL.

It cannot have escaped notice that the entire Shipping Board plan has been moulded about the central idea of developing direct popular ownership of merchant shipping, and direct popular participation in all the profits it earns. Every detail of organization and administration, including the education of prospective new shipowners by employing them to operate unsold ships in new trade routes for Government account, has been fashioned with the idea of placing those ships as soon as possible in the hands of American citizens who have resolved to lay down a heavy stake upon their ability and determination successfully to engage in the business of serving and extending the overseas trade of the United States. Every inducement and protection which the Government can offer without sacrifice to the public interest is offered them.

World conditions permit the ships to be sold on terms which will reimburse the Government for the cost of construction, and, if Congress acts favorably upon a recommendation which I have made, the enterprising groups of citizens who buy ships now will be permitted to take advantage of the extraordinarily favorable opportunities of the next three abnormal years and so strengthen their financial position that they need have no apprehension whatever about their ability to meet successfully whatever conditions the return to normal times may bring about.

Briefly, this recommendation was to the effect that the citizens who buy vessels now be permitted to charge off annually out of earnings for three years, in addition to the customary five per cent, a special amortization of ten per cent, the amount of the special amortization so charged off to be exempted from federal taxation, provided that within the three years the shipowners use the special amortization fund so set aside from the earnings of all his vessels to construct one or more new vessels in an American shipyard. I believe this special amortization is a legitimate charge against the cost of transacting current business done on present valuations, which have not been created by the new steamship owners, but much of which — especially in ship construction — is known to have been created by various acts of this and other Governments while striving to get quick results in an emergency. It seems to me no more than just that at this time, when every value on earth is being questioned, the Government takes this step, which is also a help to the uncertain future of the shipping industry to impart confidence to the men who buy and build ships.

If this is not done, I fear that a great many ships will not be sold at this time. Many a man who would like to buy ships today and intrench himself firmly in the business during the next three years of high earnings, naturally hesitates when he sees the shipyards offering to deliver new vessels in eighteen months or two years at $150 a ton, or seventy-one per cent of what a purchaser has to pay today. If he could see his way clear to write off enough to enable him to meet the competition of the $150-ship two years hence, he would not hesitate.

The Government, too, has an interest in this matter, for it would seem wiser to forego a little taxation now than to be obliged to sell the greater part of the fleet at a forty per cent loss two or three years hence, when the $150 new ships begin coming on the market in quantity. Then it may not only be necessary for the Government to meet the $150 price; it may also be necessary to make an additional concession equivalent to three years' normal depreciation at five per cent a year in order to place the three-year-old ship on competitive parity with the new ship.

THE MENACE OF CHARTERING SHIPS.

Throughout all our studies and plans we have kept before our minds' eyes the objective of creating a merchant marine owned and operated by citizens who believe in its future, who have staked their all upon success, and who stand ready to back their convictions with all the personal and collective moral, intellectual, physical and financial resources they possess. So far a goodly number of such citizens has come forward. They and the commerce of the country are enjoying the results of their American courage and initiative. We are all proud of them. Many more such men stand ready to buy ships, but a pall of doubt suddenly has been thrown over the situation by a fresh outburst of the same old propaganda to which I have referred before, accompanied by agitation before Congress for the enactment of a law under which the Government would charter or lease its ships for five year periods to anyone who wants to try his hand at the game.

It does not require much business sense, or even much imagination, to comprehend that the adoption of such a policy would shatter forever our hope of establishing a permanent American merchant marine. The steamship operator who operates chartered ships is the seagoing analogue of the man on shore who engages in business on a ten-million-dollar scale with a thousand dollars capital what is commonly known as a "shoestring operator".

We cannot expect any man or group of men who have any business acumen whatever to invest millions of dollars in vessel and terminal property when other men can get the full use of similar ships at an outlay of only a small monthly rental. Having no capital liabilities to protect, and none of the other restraints and responsibilities of ownership, the operator who charters ships is free to shift his vessels from one trade route to another, slashing rates right and left, demoralizing the business of legitimate steamship companies; and finally, when he has exhausted all the possibilities of the present excellent opportunity for such piratical operations, he is free to step out and throw his vessels back on the hands of the Governmenet. The summary revocation of the charters of such an operator would do no good, for the next day the vessels probably would be chartered to another operator who would repeat the performance.

It cannot be argued that I have taken an extreme view of this situation because everyone knows that the Government has no power to control ocean freight rates in the foreign trade, except to the extent of preventing a steamship operator from discriminating against an American merchant in favor of a foreign merchant. Nothing short of a long series of international agreements could make it possible for our Government to control freight rates in our overseas trade. These agreements, of course, would have to be made with our marine competitors, so it is easy to guess how much sympathy we would get. Moreover, all Americans would blush to see our Government driven to beg such favors of competitors in consequence of its own folly.

At first glance it seems incredible that any considerable body of American citizens would come forward and seriously advocate such a proposition, especially at this time when ownership and permanent organization should be our goal. After reading the evidence advanced before the ship subsidy hearings in Congress during the last twenty-odd years, and after reading the newspaper articles and interviews to which I have referred, and which are still being published day-by-day, the answer is not difficult to find. They are not the real American steamship men, the men who have owned and operated ships under the American flag through good times and bad, for years and years. Nor are they men of the type we wish to see operating the ships of the American merchant marine.

It is not the real American shipowner, or the enterprising aspirant shipowner, but men of the type I have just described, and a large number of men who aspire to follow in their selfish footsteps, who constitute the driving force behind the agitation, urging the wholesale chartering of Government vessels to whoever wished to operate them. With these men are a great many loyal and honest citizens whom they have mislead by posing as American steamship men of long experience, and therefore authorities on the subject.

It may be that later on, when we have the situation better in hand, we may find it useful to employ the "bare boat" commercial ship charter form, with a clause providing for the setting-aside of a sinking fund out of earnings, as a bill of sale in selling vessels on the installment plan. The Shipping Board recommendations to Congress contain broad provisions under which this may be done. But in no sense would such a practice be chartering ships in the commercial sense of the word; nor would the man who took the ship on such a basis have any advantage over the man who buys ships outright, or under any other plan.

COST OF SHIP-CHARTERING TO THE GOVERNMENT.

In strict consistency with their testimony at congressional hearings and their published interviews and announcements advocating ship subsdies at the

Government's expense, the advocates of this ship-chartering plan now want the Government to assume all the responsibilities and expenses incident to ownership which, as I have said before, they wish to avoid themselves. I informed Congress of the Board's opposition to any ship-chartering plain in writing as follows:

"From the stipulations set forth in the plan we submitted to you on June 10, you can see clearly that the Shipping Board considers it vital to guard and limit carefully the practice of chartering or leasing ships—if, in fact, it proves desirable to charter or lease at all.

"One reason for this attitude is our desire to create a merchant marine based upon the solid foundation of ownership and serious, determined ambition to grow and to succeed. We do not wish to shatter this objective by making it possible for anyone to get the full use of the Government ships by paying only a small monthly rental, avoiding all the responsibilities of ownership.

"Moreover, such men would be a constant menace to the American steamship business. It would be impractical to control them. They would be free to shift their vessels from one trade route to another, demoralizing the business of the serious, constructive men who have thrown their all into the business of serving the overseas trade of the United States. Then they could simply throw their vessels back into the hands of the Government, depreciated in accordance with the usage they had received.

"The question of chartering the Government ships to private operators is a very complicated one, and I think you should have the other salient points of the proposition before you. Therefore, I am going to give you an outline. I feel that the importance of the subject will justify my writing at some length.

"Everyone knows that the commercial practice of time-chartering ten or a dozen vessels for operation in a few trade routes always has been a profitable business, and many foreign shipowners are engaged in it. But when the Government undertakes to time-charter 2,000 ships scattered over all the trade routes of the world, the proposition assumes a different aspect.

"In order to man, victual, insure and keep repaired 2,000 ships, the Government would be obliged to maintain a nation-wide recruiting and training organization capable of keeping 100,000 positions filled on board ship. It would also have to maintain a national steward's and commissary department with purchasing and distributing agencies in every American and many foreign seaports. In addition, there would have to be a large auditing organization to look after the finances of the recruiting and commisary departments, and to

handle accounts with operators, repair yards, etc. A large legal department capable of looking after the charter contracts and of handling the questions of admiralty law arising out of the operation of vessels, and an insurance departments with a corps of trained adjusters would also be necessary.

"It goes without saying that the cost of all this establishment to the Government would be large, and if to this overhead we add the wages and subsistence of 100,000 seagoing men; the cost of their food; the cost of marine insurance for 2,000 ships and the cost of keeping the whole fleet in repair, we would get a very large total.

If the going time-charter rate was $7.00 a deadweight ton a month, the Government's monthly income from a fleet of 10,000 tons would be $70,000,000. At an average freight revenue of $12.50 a deadweight ton a month (which is about the current revenue of well-managed free ships) the operators would receive a monthly revenue of $55,000,000, from which they would have to meet expenses totaling much less than the Government's expenses.

"Under such an arrangement it seems that the Government would be obliged to appropriate large sums annually to make up an operating deficit; and if this should prove true, it would be doubtful if the Government ever could recover a dollar of the money spent on the construction of the fleet. Also, I think you will agree that if the Government ever embarked on a policy of chartering its vessels it could succeed in selling few, if any. Operators would not be likely to lay out a million dollars for a ship and assume all the risks and responsibilities of ownership when the Government offered them the much easier alternative of hiring it at a small monthly rental, and in addition relieved them of the expense and trouble incident to manning, victualing, insuring, etc.

"Of course the bare-boat form of charter would not cause the Government to maintain quite so large an organization, or to bear quite so great an expnese, as time form. Still, it would cut the Government's revenue from $7.00 to $4.00 a deadweight ton a month (or from $70,000,000 to $40,000,000), and it would not help the Government to sell the ships, or to reimburse itself for its construction outlay. Furthermore, any system of chartering would naturally result in the running down of the fleet, which, after a few years, would equally and naturally be thrown back on the Government's hand worthless for competitive use at sea."

I am hopeful, however, that some of the investigations now in progress in both houses of Congress will reveal enough of the intricacies of the steamship business to prevent the taking of any serious false step. I am hopeful that Congress will soon give the Shipping Board a charter of broad, constructive

powers under which it can invite the American people to come into the steamship business fearlessly, and to build undisturbed on the sound foundation of ownership, courage, initiative and co-operation."

EDWARD N. HURLEY,

Chairman United States Shipping Board.

July 31st, 1919.

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